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State of Montana

Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

MONTANA HISTORICAL SOCIETY

Financial-Compliance Audit for the

Two Fiscal Years Ended June 30, 1986

This report contains two recommendations for improvement of the society's operations. The major issue addressed in the report concerns the society's noncompliance with state law relating to fund classification.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:
JOHN W. NORTHEY

March 1987

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Historical Society's financial activity for fiscal years 1984-85 and 1985-86. The society's written response to the audit recommendations is included in the back of the audit report.

We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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L72hs financial-
1986 compliance audit
for the two fiscal
years ended

DATE	ISSUED TO

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MONTANA HISTORICAL SOC

Financial-Compliance Audit f
Two Fiscal Years Ended June

Audit staff involved in this audit were: Wayne Kedish, Julie Barr, Gary Trescott, Brian Torgerson, Janet Tursich, and Suzanne Wellcome.

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APPOINTED AND ADMINISTRATIVE OFFICIALS

MONTANA HISTORICAL SOCIETY BOARD OF TRUSTEES

		Term Expires July 1 of
James R. Berry	Wolf Point	1989
Mrs. Charles A. Bovey	Great Falls	1987
Bruce L. Ennis	Billings	1991
Leif Erickson	Bigfork	1991
Mrs. Helen Hornby	Livingston	1988
William Mackay	Roscoe	1989
Michael P. Malone	Bozeman	1987
Eric J. Myhre	Helena	1987
George W. O'Connor	Butte	1988
Loran Perry	Havre	1990
James W. Reger	Billings	1990
Robert J. Sletten	Great Falls	1990
Hal Stearns	Helena	1991
Dee C. Taylor	Missoula	1988
Wilbur P. Werner	Cut Bank	1989

MONTANA HISTORICAL SOCIETY PRESERVATION REVIEW BOARD*

		Term Expires October 1 of
Tom Foor	Missoula	1989
Don Hyyppa	Helena	1988
Jack Lepley	Fort Benton	1987
Jim McDonald	Missoula	1988
Fred Quivik	Butte	1988
David Rivenes	Miles City	1987
Margaret Warden	Great Falls	1987

*two positions vacant

MONTANA HISTORICAL SOCIETY

Dr. Robert Archibald	Director
Brian Cockhill	Administrative Officer Centralized Services

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	Page
Recommendation #1	
The society record the $450,000 gift in the Expendable Trust Fund.	3
Agency Response: Concur. See page 15.	
Recommendation #2	
The society classify revenue in accordance with state accounting policy.	4
Agency Response: Concur. See page 15.	

GENERAL

We performed a financial-compliance audit of the Montana Historical Society for fiscal years 1984-85 and 1985-86. The objectives of the audit were to:

1. determine if the society's financial schedules present fairly the results of operations for the two fiscal years then ended;
2. determine if the society complies with applicable laws and regulations;
3. make recommendations for the improvement in the management and internal controls of the society; and
4. determine the status of prior audit recommendations.

This report contains two recommendations to the society. These recommendations address areas where financial reporting and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the programs within the Montana Historical Society are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations.

BACKGROUND

The Montana Historical Society was established in 1865 by the Territorial Legislature. State law authorized the society to become ". . . an agency of state government for the use, learning, culture, and enjoyment of the citizens of the state and for the acquisition, preservation and protection of historical records, art, archival and museum objects, historical places, sites, and monuments. The society has custody, maintenance and operation of the historical library, museums, art galleries, and historical places,

sites and monuments." The society was authorized 44 and 51 full-time equivalent employees in fiscal years 1984-85 and 1985-86, respectively.

Fifteen trustees, appointed by the Governor with the consent of the Senate, administer the society. The society's director handles the immediate direction, management, and control of the society. Under his direction, the society operated seven programs during our audit period:

1. Administration
2. Library
3. Museum
4. Magazine
5. Historic Sites Preservation
6. Archives
7. Education

The following report sections discuss issues noted during our audit of the society.

PRIOR AUDIT RECOMMENDATIONS

The previous audit of the society, for the two fiscal years ended June 30, 1984, contained nine individual recommendations. Of the nine recommendations, eight have been implemented and one has not been implemented. The society officials concurred with the prior audit recommendation it did not implement. The recommendation not implemented concerns incorrect fund and revenue classification. This issue is discussed in the following sections.

STATE ACCOUNTING POLICY ISSUES

Fund Classification

The state accounting records are organized using a fund structure specified in section 17-2-102, MCA. In fiscal year 1984-85 the society recorded a $450,000 gift in the Nonexpendable Trust Fund. The society should have recorded this gift in the Expendable Trust Fund.

The Nonexpendable Trust Fund normally is used to record gifts that stipulate the principal not be expended. The society did not have documentation to indicate that the principal of the gift could not be expended. Therefore, the use of the Nonexpendable Trust Fund was not proper. The Expendable Trust Fund should be used to account for gifts held by the state in a trustee capacity where the principal may be expended.

Society personnel indicated they recorded the gift in the Nonexpendable Trust Fund because they believed that was the most conservative approach to managing the gift. The society is holding the principal intact and using the investment earnings from the trust to fund society projects. The change in fund classification does not require a change in the society's handling of this gift. However, the society could have expended both the principal and interest to fund society projects.

As a result of not recording the gift in the proper fund, assets, revenue, and fund balance in fiscal years 1984-85 are overstated in the Nonexpendable Trust Fund and understated in the Expendable Trust Fund by $450,093. In fiscal year 1985-86 assets, revenue, and fund balance are overstated in the Nonexpendable Trust Fund and understated in the Expendable Trust Fund by $416,799, $21,589, and $416,799, respectively.

RECOMMENDATION #1

WE RECOMMEND THE SOCIETY RECORD THE $450,000 GIFT IN THE EXPENDABLE TRUST FUND.

Revenue Classification

State accounting policy establishes statewide revenue classifications. These classifications are a means of identifying the nature of the amounts deposited into a fund in the state's accounting system.

The society recorded coal tax interest money granted to the society by the Montana Arts Council as investment earnings

revenue. The money would more properly be recorded as gifts, grants, and donations revenue since the transaction with the Montana Arts Council is, in substance, a grant to the society. As a result, investment earnings revenue is overstated and grants, gifts, and donations revenue is understated by $51,132 and $39,646 in fiscal years 1984-85 and 1985-86, respectively.

Society officials indicated they had questioned the classification, but because the money flows through two state agencies prior to the society receiving the funds and they had always recorded the money as investment earnings, they continued to record it as investment earnings.

RECOMMENDATION #2

WE RECOMMEND THE SOCIETY CLASSIFY REVENUE IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

We issued a qualified opinion on the Schedule of Changes in Fund Balance. The society recorded the gift; however, the gift was not recorded in the proper fund classification per state accounting policy. This item is discussed in the auditor's opinion.

We issued an unqualified opinion on the Schedule of Budgeted Revenue - Estimated and Actual and the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund. This means the schedules are reasonable and the user of this information from the Statewide Budgeting and Accounting System (SBAS) may place reliance on the information.

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JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Montana Historical Society for each of the two fiscal years ended June 30, 1985, and 1986, as shown on pages 7 through 14. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

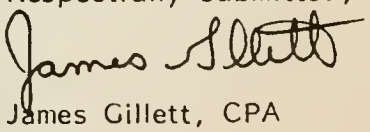
In fiscal year 1984-85 the society recorded a gift of $450,000 in the Nonexpendable Trust Fund that should have been recorded in the Expendable Trust Fund. The fund misclassification resulted in misstatements to the Schedule of Changes in Fund Balance as shown below:

	Nonbudgeted Revenue Over (Under)stated	Prior Year Revenue Over (Under)stated	Fund Balance Over (Under)stated
Fiscal Year 1984-85			
Nonexpendable Trust Fund	$ 450,093		
Expendable Trust Fund	(450,093)		
Fiscal Year 1985-86			
Nonexpendable Trust Fund	21,589	$(54,881)	$416,799
Expendable Trust Fund	(21,589)	54,881	(416,799)

In our opinion, except for the effect of the matter discussed in paragraph three, the Schedule of Changes in Fund Balance for the two fiscal years ended June 30, 1986, present fairly the results of operations of the Montana Historical Society in conformity with the basis of accounting described in Note 1, which, except for the change in accounting policy related to transfer classification of money transferred to the enterprise fund (Note 6), with which we concur, has been applied on a consistent basis.

In our opinion, the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual and the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund present fairly the results of operations of the Montana Historical Society for the fiscal years ending June 30, 1985, and 1986, in conformity with the basis of accounting described in Note 1, which, except for the change in accounting policy, related to transfer classification of money transferred to the enterprise fund (Note 6), with which we concur, has been applied on a consistent basis.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

December 23, 1986

MONTANA HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	General Fund	Special Revenue Funds	Enterprise Funds	Nonexpendable Trust Funds
FUND BALANCE: July 1, 1984	$ -0-	$ 117,956	$170,088	$122,498
ADDITIONS				
Fiscal Year 1984-85				
Budgeted Revenue & Transfers In		845,983	369,152	
Prior Year Revenue Adjustments		(45,803)	267	(1,988)
Support From State Of Montana	1,046,507			
Nonbudgeted Revenue & Transfers In				457,280
Fiscal Year 1985-86				
Budgeted Revenue & Transfers In	689	733,796	381,794	
Prior Year Revenue Adjustments	420	83,893	110	(54,881)
Support From State Of Montana	1,194,804			
Nonbudgeted Revenue & Transfers In		182,000		30,911
Total Additions	2,242,420	1,799,869	751,323	431,322
REDUCTIONS				
Fiscal Year 1984-85				
Budgeted Expenditures & Transfers Out	1,047,405	737,576	341,851	
Prior Year Expenditure Adjustments	(898)	(10,073)	(3)	
Prior Year Expenditure		(38,125)		
Nonbudgeted Expenditures & Transfers Out			(10,680)	2,000
Direct Entries to Fund Balance		39,405	6,340	
Fiscal Year 1985-86				
Budgeted Expenditures & Transfers Out	1,204,073	906,706	431,659	
Prior Year Expenditure Adjustments	(8,160)	21,068	109	
Nonbudgeted Expenditures & Transfers Out		182,000	(1,506)	4,550
Direct Entries To Fund Balance		6,826	7,488	
Nonbudgeted Prior Year Expenditure Adjustment			14,949	
Total Reductions	2,242,420	1,845,383	790,207	6,550
FUND BALANCE: June 30, 1986	$ -0-	$ 72,442	$131,204	$547,270

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 11 through 14.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	Federal Indirect Cost Recoveries	Investment Earnings	Sale of Documents & Merchandise	Grants,Gifts, & Donations	Federal Assistance	Other Financing Sources	Total
FISCAL YEAR 1985-86							
GENERAL FUND							
Estimated Revenue	$ 800						$ 800
Actual Revenue	689						689
Collections Over (Under) Estimate	$ (111)						$ (111)
SPECIAL REVENUE FUND							
Estimated Revenue	$ 26,000	$ 258,437	$ 44,000	$ 428,000	$1,124,485		$ 1,880,922
Actual Revenue	26,138	51,005	23,540	171,716	461,397		733,796
Collections Over (Under) Estimate	$ 138	$(207,432)	$(20,460)	$(256,284)	$ (663,088)		$(1,147,126)
ENTERPRISE FUNDS							
Estimated Revenue			$361,500			$41,320	$ 402,820
Actual Revenue			340,474			41,320	381,794
Collections Over (Under) Estimate			$(21,026)			$ -0-	$ (21,026)
FISCAL YEAR 1984-85							
SPECIAL REVENUE FUND							
Estimated Revenue	$ 60,000	$ 301,481	$ 26,337	$ 312,800	$ 581,427		$ 1,282,045
Actual Revenue	43,418	56,682	26,711	194,127	525,045		845,983
Collections Over (Under) Estimate	$(16,582)	$(244,799)	$ 374	$(118,673)	$ (56,382)		$ (436,062)
ENTERPRISE FUNDS							
Estimated Revenue			$380,946				$ 380,946
Actual Revenue			369,152				369,152
Collections Over (Under) Estimate			$(11,794)				$ (11,794)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 11 through 14.

MONTANA HISTORICAL SOCIETY

SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Administration	Library	Museum	Magazine	Historical Sites Preservation	Archives	Education	Total
PERSONAL SERVICES								
Salaries	$229,700	$128,360	$134,829	$110,365	$139,697	$206,497	$39,064	$ 988,512
Employee Benefits	50,574	27,322	29,909	23,237	29,840	44,878	6,246	212,006
Total	280,274	155,682	164,738	133,602	169,537	251,375	45,310	1,200,518
OPERATING EXPENSES								
Contracted Services	39,575	17,781	60,983	40,404	10,467	16,293	11,815	197,318
Supplies & Materials	5,524	4,157	19,630	4,439	3,104	8,305	1,075	46,234
Communications	10,457	4,371	6,342	11,725	10,140	4,456	2,727	50,218
Travel	4,972	1,799	4,499	4,329	10,328	2,170	2,740	30,837
Rent	54,101	3,266	1,187	7,008	7,928	859	202	74,551
Repair & Maintenance	3,774	5,368	856	2,136	3,393	833	554	16,914
Other Expenses	3,996	3,228	1,786	4,316	4,205	737	1,557	19,825
Goods Purchased For Resale		32		217,739				217,771
Total	122,399	40,002	95,283	292,096	49,565	33,653	20,670	653,668
EQUIPMENT AND INTANGIBLE ASSETS								
Equipment	304,176	10,695	5,588	5,916	877	1,185		328,437
Intangible Assets		2,069		45	38	287		2,439
Total	304,176[1]	12,764	5,588	5,961	915	1,472		330,876
GRANTS								
From Federal Sources					255,389			255,389
Total					255,389			255,389
TRANSFERS								
Accounting Entity Transfers				41,320				41,320
Total				41,320				41,320
DEBT SERVICE								
Installment Purchases	60,667							60,667
Total	60,667							60,667
TOTAL PROGRAM EXPENDITURES	$767,516	$208,448	$265,609	$472,979	$475,406	$286,500	$65,980	$2,542,438
GENERAL FUND								
Budgeted	$517,749	$151,230	$213,098	$ 41,320	$ 76,484	$202,262	$21,484	$1,223,627
Actual	508,432	150,650	211,847	41,320	74,647	199,389	17,788	1,204,073
Unspent Budget Authority	$ 9,317	$ 580	$ 1,251	$ 0	$ 1,837	$ 2,873	$ 3,696	$ 19,554
SPECIAL REVENUE FUND								
Budgeted	$400,993	$ 74,257	$137,182		$937,800	$158,705	$65,436	$1,774,373
Actual	259,084	57,798	53,762		400,759	87,111	48,192	906,706
Unspent Budget Authority	$141,909	$ 16,459	$ 83,420		$537,041	$ 71,594	$17,244	$ 867,667
ENTERPRISE FUNDS								
Budgeted				$445,595				$ 445,595
Actual				431,659				431,659
Unspent Budget Authority				$ 13,936				$ 13,936

[1] See footnote 7

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 11 through 14.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Administration	Library	Museum	Magazine	Historical Sites Preservation	Archives	Education	Total
PERSONAL SERVICES								
Salaries	$202,638	$129,910	$131,384	$106,665	$121,047	$195,500	$ 40,396	$ 927,540
Hourly Wages				129	34	40	37	240
Employee Benefits	44,676	27,565	28,243	21,379	25,572	43,707	6,275	197,417
Total	247,314	157,475	159,627	128,173	146,653	239,247	46,708	1,125,197
OPERATING EXPENSES								
Contracted Services	49,937	15,476	38,792	17,505	6,374	30,587	24,257	182,928
Supplies and Materials	5,288	7,646	12,512	3,846	2,116	11,289	1,783	44,480
Communications	9,607	3,672	5,386	13,605	12,545	5,044	2,119	51,978
Travel	5,108	878	3,589	3,152	10,704	3,527	2,053	29,011
Rent	47,837	2,527	530	6,172	3,770	180	78	61,094
Repair and Maintenance	3,170	2,829	2,603	1,379	2,057	1,076	109	13,223
Other Expenses	1,788	3,562	1,691	2,535	3,881	575	1,324	15,356
Goods Purchased for Resale				202,730				202,730
Total	122,735	36,590	65,103	250,924	41,447	52,278	31,723	600,800
EQUIPMENT AND INTANGIBLE ASSETS								
Equipment	4,751	10,568	7,587	2,283	2,079	5,278	6,518	39,064
Total	4,751	10,568	7,587	2,283	2,079	5,278	6,518	39,064
GRANTS								
From Federal Sources					363,011	(1,240)		361,771
Total					363,011	(1,240)		361,771
TOTAL PROGRAM EXPENDITURES	$374,800	$204,633	$232,317	$381,380	$553,190	$295,563	$ 84,949	$2,126,832
GENERAL FUND								
Budgeted	$366,007	$144,945	$217,157	$ 39,529	$ 74,600	$199,155	$ 29,224	$1,070,617
Actual	354,484	144,945	210,799	39,529	74,422	199,033	24,193	1,047,405
Unspent Budget Authority	$ 11,523	$ -0-	$ 6,358	$ -0-	$ 178	$ 122	$ 5,031	$ 23,212
SPECIAL REVENUE FUND								
Budget	$ 47,840	$ 85,333	$ 44,924		$600,813	$156,532	$ 81,329	$1,016,771
Actual	20,316	59,688	21,518		478,768	96,530	60,756	737,576
Unspent Budget Authority	$ 27,524	$ 25,645	$ 23,406		$122,045	$ 60,002	$ 20,573	$ 279,195
ENTERPRISE FUND								
Budget				$415,537				$ 415,537
Actual				341,851				341,851
Unspent Budget Authority				$ 73,686				$ 73,686

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 11 through 14.

MONTANA HISTORICAL SOCIETY

NOTES TO THE FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Historical Society utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

--If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

--The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

--Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if:

1. They are measurable and available to finance expenditures of the fiscal period; or

2. Are material in amount and are not received at the normal time of receipt.

The society utilizes the accrual basis of accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred (if measurable).

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the society:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Enterprise - accounts for operations:

A. That are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

B. Whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Nonexpendable Trust - accounts for assets held by a governmental unit in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

Vacation and Sick Leave

Employees at the society accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Expenditures for termination pay currently are absorbed in the annual operational costs of the society. At June 30, 1986, the society had a compensated absence liability of $81,408 in the Enterprise Fund and the Long-Term Debt Account Group combined.

2. EMPLOYEES' RETIREMENT SYSTEM

The Montana Historical Society (MHS) employees are covered by the Public Employees' Retirement System (PERS). The society's contribution to PERS for the fiscal years ended June 30, 1985 and 1986, were approximately $57,600 and $62,600, respectively.

3. MUSEUM COLLECTION

Museum collections at the society include C.M. Russell, Poindexter, Ethnographic, Griffin, History, Haynes, Johns Gun, Original Governor's Mansion, and the Permanent Fine Arts Collection. Library and Archives collections consist of books, periodicals, maps, microfiche, photographs, monographs, and manuscripts.

The practice followed by many museums is not to record the values of purchased and donated collections because of the impracticability of valuing these assets. However, for insurance purposes the value of the collection as of June 30, 1986, was $29,994,569.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule the General Fund beginning and ending fund balance will always be zero.

5. MAGAZINE REVENUE

Magazine revenue is recognized when the magazine is issued. The last quarterly issue for fiscal year 1983-84 was not published until July 1984 due to publishing delays. As a result, revenue for five quarterly issues was recorded as revenue in fiscal year 1984-85. Three issues were recorded as revenue in fiscal year 1983-84 and four issues in fiscal year 1985-86.

6. TRANSFERS IN AND OUT

The society's enterprise fund receives General Fund support. Prior to fiscal year 1986 the money was expended in the General Fund for the benefit of the enterprise fund. In fiscal year 1986 a transfer out was recorded in the General Fund and a transfer in was recorded in the enterprise fund for $41,320, respectively. The funds were expended in the enterprise fund. This change in state accounting policy was made to comply with generally accepted accounting principles.

7. EQUIPMENT EXPENDITURES

Fiscal year 1985-86 equipment expenditures of $304,176 in the Administration program includes a $300,000 expenditure to purchase a collection of C.M. Russell paintings and letters.

AGENCY RESPONSE

MONTANA HISTORICAL SOCIETY
225 NORTH ROBERTS STREET • (406) 444-2694 • HELENA, MONTANA 59620-9990

March 23, 1987

RECEIVED
MAR 25 1987
MONTANA LEGISLATIVE
AUDITOR

Scott A. Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

The following is our response to recommendations appearing in our audit for the two fiscal years ended June 30, 1986.

We thank you and your staff for your time and effort.

Recommendation #1 Concur. The trust will be reclassified as an Expendable Trust effective fiscal year 87.

Recommendation #2 Concur. The revenue class will be changed from Interest Earnings to Grants & Contracts effective fiscal year 87.

Sincerely,

Robert Archibald
Director

RA/db